

Tapping Potential

In a country where electricity prices are among the highest in the world and where the state often struggles to meet growing demand, the business community eagerly awaits the privatization of Turkey's electricity network. However, the government of Prime Minister Recep Tayyip Erdogan seems prepared to make the nation wait a little longer for a liberalization of its energy market, at least until after the elections scheduled for next November.

"The government doesn't want to address as vital an issue as electricity privatization in a rush," said Energy Minister Hilmi Guler in January. His statement casts a shadow over Turkey's future privatization plans and may hurt its relations with the International Monetary Fund, which strongly backs the privatization. Moreover, the delay could have a negative impact on a country in urgent need of investment in electricity generation, as it is predicted that existing capacity will be unable to meet rising national demand from 2009 onward. In fact, Turkey may soon experience blackouts similar to those that led to economic losses in several Western countries in the past few years.

Political strategies aside, most investors agree that the Turkish energy sector will offer top growth opportunities within the next decade, especially in the electricity and gas segments. The annual electricity-demand growth rate is projected to be 8.5% for the decade 2005-2015, while natural gas consumption is expected to increase to 60 billion cubic meters (bcm) during the same period. One of the world's fastest-growing energy markets, Turkey will need approximately \$130 billion in investment through 2020, a figure well above the EU average.

Energaz, an affiliate of Global Investment Holdings, was one of the first Turkish companies to take advantage of the privatization of the gas network. "We decided to sell off the controlling stake of our broker-

age and investment banking in favor of the energy sector, which is our next area of growth," says group chairman Mehmet Kutman. His experience as an investment banker gives him the confidence to get involved, on a project basis, in growth industries such as gas and electricity distribution. The company also plans to enter the electricity and gas generation markets in 2007.

Energaz built and operates the system connecting the national gas grid to end users in nine regions of Turkey, mainly in central Anatolia, which accounts for 6% to 7% of the country's demand. But with Botas, the Turkish national pipeline company, holding additional tenders in 2007, the company is looking to penetrate new regions and increase its share to 10% of the market. Forty-three area tenders have been completed to date, but the present transmission network is still far from covering the country as a whole.

"Turkey has entered an era of economic growth in which people already perceive certain structural changes as real accomplishments. But in reality, this is just the beginning," says Kutman, musing on Turkey's untapped potential. Energaz is also considering entering the electricity and water distribution businesses in the cities where it already operates. "At the end of the road we want to create a single utility bill for end consumers," he says.

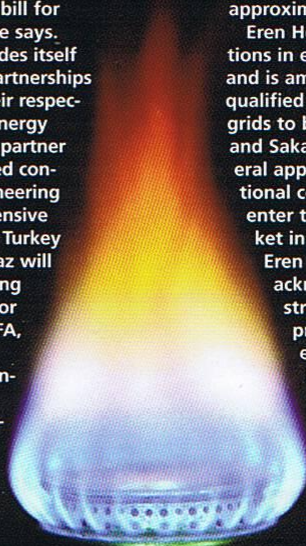
The company prides itself on entering into partnerships with experts in their respective fields. In the energy sector its technical partner is STFA, a diversified construction and engineering company with extensive experience both in Turkey and abroad. Energaz will provide the financing and oversee investor relations, while STFA, the operator, will implement and manage the projects and liaise with consumers, local authorities and the business community.

However, Energaz is not alone in the rush into the energy market. Turkish companies such as Koc Holding and Enka Insaat, and international giants like Germany's E.ON and Italy's ENEL, have clearly stated their intentions of becoming major players within the next five years. Another Turkish group increasingly active in the energy sector is Eren Holding, a conglomerate with interests in paper, tourism, textile retail, cement, packaging and energy. Eren Holding boasted a turnover of \$583 million last year. When discussing the energy sector, the company's CEO, Ahmet Eren, emphasizes the advantages of using coal in energy production. "We are going to be the only Turkish private company to have a coal-fueled power plant, as natural gas is becoming increasingly expensive in the international market," he says. "Even countries like Germany are reopening coal mines that have been closed for years."

Although Eren Holding is best known in Turkey as the producer and distributor of well-known international brands such as Lacoste, Burberry, Calvin Klein and Swatch, the group has recently completed a coal-burning thermal power station in Zonguldak, on the Black Sea, which will become operational in the first half of 2007. According to Zonguldak's governor, the facility will provide employment for approximately 1,500 people.

Eren Holding also has aspirations in electricity distribution and is among the 37 firms pre-qualified in the tender for three grids to be located in Ankara and Sakarya. "We now have several applications from international companies that wish to enter the Turkish energy market in joint ventures with Eren Holding," says Eren, acknowledging that a strategic partnership will provide his company with extra insight into the international capital market and help secure the funds needed to kick off new projects.

The ball is now firmly on the government's side of the court. ♦



Not Just for Tourists

With an eye on gaining membership to the EU, Turkey has been working hard in recent years to establish a credible brand for its numerous and varied industries. Healthcare may well turn out to be one of its prize assets.

In the past, Europeans have passed through Turkey on their way to India, Hungary and, lately, Greece and Cyprus to take advantage of the highly skilled specialists and medical facilities available in these countries at prices far below those at home. Today many of these "medical tourists" are coming to Turkey itself for a variety of healthcare services.

Already a name to reckon with in the fields of ophthalmology and dentistry, Turkey has a competitive advantage that's now attracting patients for a wide range of medical procedures. For example, a heart bypass that costs about \$75,000 in Britain or in the Middle East costs only \$15,000 in Turkey.

Besides offering significantly lower costs, healthcare in Turkey also benefits from a vast pool of science and medical graduates and the government's increasing willingness to invest in both public and private healthcare.

The country's health expenditure has increased significantly over the past few years, from 3.7% of GDP in 1999 to 5% in 2005, a higher percentage than in many countries with similar per capita incomes.

The Turkish Health Ministry is introducing a new model to facilitate cooperation between the public and private sectors in the construction of hospitals. It calls for the government to provide the land and pay rent for up to 30 years, after which the hospital will become the property of the state. The investors will manage construction, according to government-approved plans, and will be responsible for hospital maintenance. This model will allow the construction of hospitals on schedule, without delays due to insufficient financing.

While the government's healthcare model will lead to a substantial increase in the opening of new hospitals across the country, a number of well-regarded institutions, such as the American Hospital of Istanbul, have been operating in the country for some time.

The hospital's original purpose was to provide medical services to foreign mili-

tary units stationed in Istanbul. In 1955 the Koc Group, one of the largest family-owned conglomerates in Turkey, acquired the American Hospital, and the group's Vehbi Koc Foundation owns it today. "The Koc family has been extremely supportive of this project, and they have invested more than \$100 million in the hospital so far," says CEO George D. Rountree.



Lifetime care

Run as a nonprofit organization, the American Hospital offers a wide range of services and treats more than 120,000 patients a year. It employs 279 specialists, many of them trained in the U.S., and 1,038 support personnel. The building, located in one of the busiest commercial districts of Istanbul, was constructed to withstand earthquakes up to a magnitude of 9 on the Richter scale, an important architectural feature in a region prone to violent seismic activity. When the current expansion is complete, the hospital will house 200 patient beds, some of which will enjoy a spectacular view over the Bosphorus. "Our CEO

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Dr. Murat Dayanikli, CEO of Anadolu Medical Center

wanted the hospital's rooms to be similar to hotel rooms, and I think we've managed to accomplish that," says a top hospital manager.

The American Hospital has received ISO 14000 and ISO 9001 certification in compliance with international standards and it regularly holds symposiums with hospitals in the U.S. to recruit Turkish doctors working there.

The Anadolu Medical Center (AMC) offers another healthcare option in Turkey. The facility has a pioneering emphasis on preventative medicine and lifetime continuum care, with a wellness center and primary care facility under the same roof as long-term care and a combination of education and research programs. This multidisciplinary approach facilitates diagnosis and treatment in all of the center's specialist departments, and differentiates AMC from other medical facilities in the region.

Dr. Murat Dayanikli, the center's CEO, identifies the crucial role of the primary care physician in preventative healthcare. "That is why our logo says 'in health and in sickness,'" he says. A Yale graduate who has

worked extensively in the U.S., Dayanikli greatly values the AMC's 15-year partnership with one of America's leading teaching hospitals. "In the long run, with the assistance of our partner, the Johns Hopkins Medical Schools, the AMC will become a healthcare teaching hospital and a reference point for the region." He also emphasizes that over 35% of his staff is certified by the U.S. Medical Board.

The AMC's facilities are impressive by any standard. The campus covers 45,000 square meters, has 209 beds and is surrounded by forest, enabling it to offer treatment in a peaceful environment far removed from the city. It is equipped with cutting-edge technologies, including the CyberKnife System, one of the most advanced cancer treatments available,

and is already attracting attention for its oncology, cardiovascular, neurology and gynecology departments.

Dayanikli's long-term goal is to make AMC the best hospital in Europe, offering state-of-the-art services combined with unique Turkish hospitality, and secure in the knowledge that science in Turkey is on par with that of Europe, the Middle East and the rest of the world. ❖